HOUSING MARKET OUTLOOK
Saskatoon CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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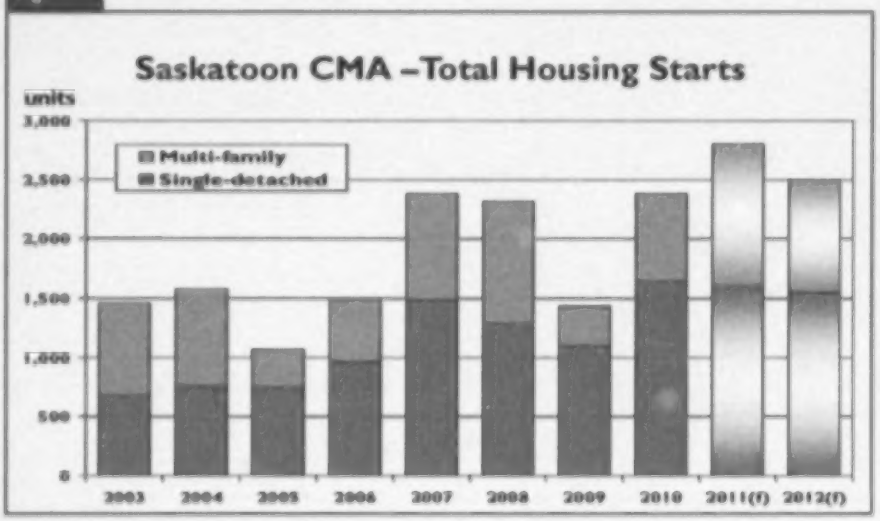
NEW HOME MARKET

Housing starts to remain elevated through 2012

So far this year, a slower pace of price growth coupled with the prevalence of low mortgage rates has combined to help strengthen demand for housing, primarily in the multi-family market. In response, homebuilders across the Saskatoon Census Metropolitan Area (CMA) have boosted new home construction this year and are on course to improve upon last year's strong performance. Hence, following a 67 per cent improvement to 2,381 units in 2010, total housing starts are projected to advance 18 per cent in 2011 to 2,800 units.

Next year, improvements in the global economy should support increased demand and higher prices

Figure 1



Source: CMHC, CMHC Forecast (f)

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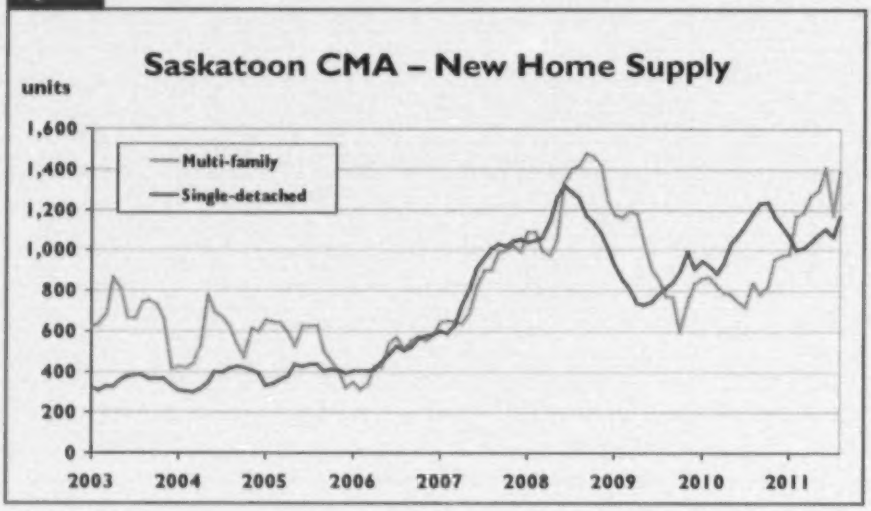
[1] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 5, 2011, except for the addition of new information regarding the British Columbia and Nova Scotia shipbuilding contracts of October 19th, 2011.

[2] Multiple Listing Service® (MLS®) is a registered trademark owned by the Canadian Real Estate Association.

for commodities such as potash, agricultural, and manufactured goods. This will reinvigorate the local economy and bolster employment in 2012.

Despite these positives, competing factors will temper housing starts next year. Builders will face rising inventories of new homes and heightened competition from the resale market. Meanwhile, the lagged impact of two consecutive years of job losses will temper demand, as will lower levels of net migration. Collectively, these factors will set the stage for an 11 per cent reduction in total housing starts in 2012 as builders begin construction on 2,500 new units.

Figure 2



Source: CMHC

Single-detached starts to mark successive years of elevated production

Maintaining last year's elevated production, single-detached home builders are on track to initiate construction on 1,600 units this year. This will mark two consecutive years of elevated activity by the region's builders who began construction of 1,638 single-detached homes in 2010. To the end of September, builders poured foundations for 1,239 units. While this represents a four per cent reduction from the 1,297 units that began construction at this stage last year, it nevertheless marks the third highest January to September tally in 40 years.

The heightened pace of housing starts has elevated supply levels in Saskatoon's new single-detached housing market. At 1,164 units in August, single-detached supply, which includes units under construction and those that are completed and unoccupied, was 22 per cent higher than the prior five-year average. This increase was primarily due to a rise in units under construction although additions to inventory have also contributed to recent gains. Meanwhile, although marginally down from 1,064 units in the prior year, the 1,050 units under construction in August remained high for the region's builders, who over the last five years have typically maintained an average 865 units.

Two consecutive years of job losses, moderating net migration, and an elevated supply of homes, will provide the major impetus for reductions in single-detached starts through the balance of this year and going into 2012. As well, the slower pace of resale price growth will inhibit some move-up buying as sellers would realize smaller equity gains from the sale of their existing homes. Hence, despite a strengthening economy and a return to job growth in 2012, we anticipate a three per cent moderation in single-detached starts next year as builders break ground on 1,550 units.

Limited price increases through 2012

Following a 2.8 per cent increase in 2010, Saskatoon's New House Price Index (NHPI) is expected to advance 1.4 per cent this year. Statistics Canada's NHPI captures changes in the price of homes where the specifications remain the same between two periods. So far this year, relatively soft labour market conditions have curtailed upward pressure on labour costs in Saskatoon. As well, increased land availability through development in new neighbourhoods across the region has inhibited upward pressure on land costs, indicative of the land component of the index remaining unchanged since April 2010. Next year, firmer labour market conditions are expected, and this will contribute to an additional 2.0 per cent uptick in the NHPI.

The average absorbed price for new single-detached units is expected to increase slightly this year, going from $380,763 in 2010 to $382,500 in 2011. Unlike the NHPI, the average absorbed price is subject to compositional changes that may arise as a result of the distribution of sales within various price ranges. As an example, shifting consumer demand from larger to smaller homes or homes with fewer features will influence the average price. This was the case in 2010 as 31 per cent of all new single-detached absorptions across Saskatoon occurred at price ranges above the $400,000 price point, down from 36 per cent in 2009. This compositional structure has been maintained thus far in 2011 as 31 per cent of all single-detached absorptions occurred at price ranges above the $400,000 price point to the end of August. With only modest price pressures heading into the new year, expect the average absorbed price of new single-detached homes to rise 1.4 per cent to $388,000 in 2012.

Multi-family starts to moderate in 2012

In response to heightened demand for lower priced homes and recently low vacancy rates, Saskatoon's homebuilders ramped up construction of multi-family units through the first-nine months of the year. To the end of September, 992 multi-units began construction, surpassing last year's annual tally of 743 units. Anchored by the strong first-half performance, multi-family starts, which include semi-detached, row, and apartment units, are on pace to advance 62 per cent this year as local builders initiate 1,200 multi-family units. This will represent the highest production by the region's builders since 1983.

Given the strong pace of starts, the supply of multi-family housing in Saskatoon has expanded markedly in recent months, reaching 1,391 units in August, up 66 per cent from the prior year. Moving forward, we anticipate that this heightened supply of multi-family units will induce a reduction in activity as builders scale back the pace of starts and focus on completing and selling units currently underway or in inventory.

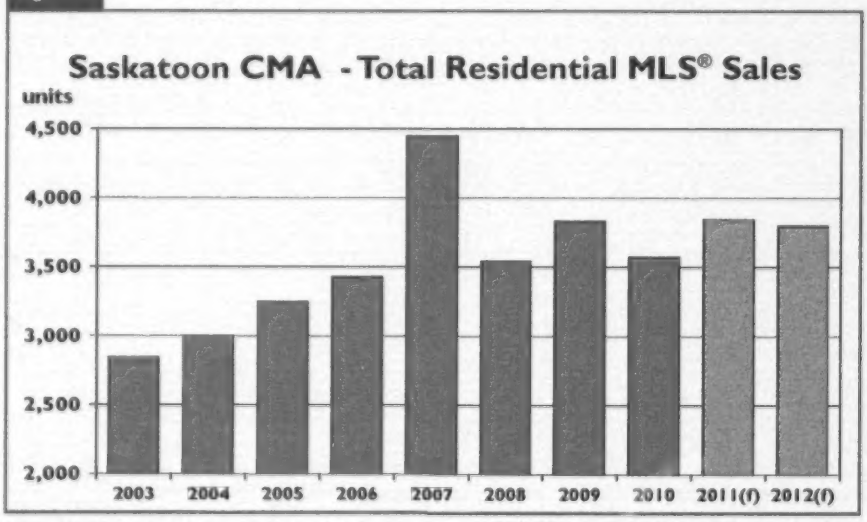
Despite the reduction in overall starts, the sector will retain its attractiveness for residents seeking a lower priced option to the single-detached sector. As well, due to lifestyle advantages for some buyers, apartment and row style condominiums, in particular, will remain attractive for Saskatoon's growing number of empty-nesters looking to downsize and capitalize on the equity in their existing homes. Multi-family production will also be supported this year and next, by on-going initiatives by multiple levels of government designed to boost the supply of rental units and increase homeownership options in Saskatoon. One of such initiatives is the Mortgage Flexibilities Support Program that has resulted in the sale of 176 designated new homes to qualifying residents since its inception in September 2009. On balance, while we expect a 21 per cent reduction in multi-family starts to 950 units in 2012, activity will remain strong by historical standards.

RESALE MARKET

MLS® Sales to remain strong through 2012

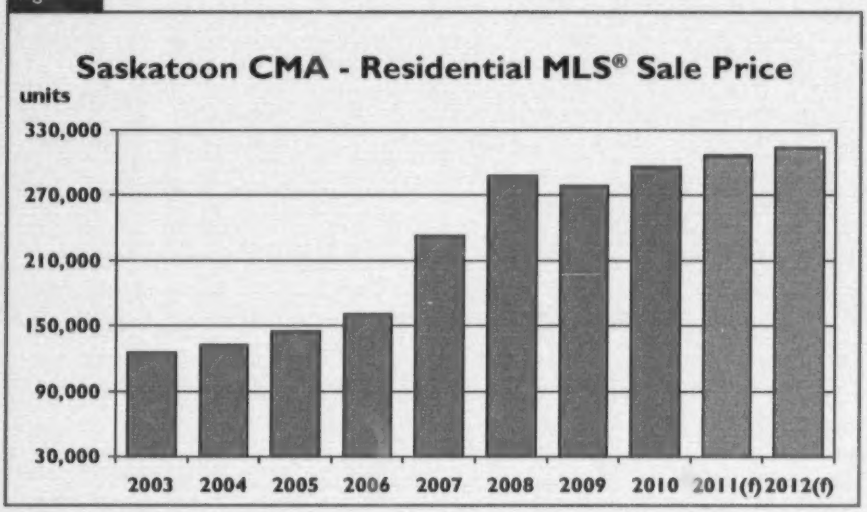
So far this year, the prevalence of low mortgage rates has cushioned the effects of price increases, supporting heightened demand for resale housing. Despite slow job growth and moderating net migration, sales of existing homes to the end of August totalled 2,829 units, up 11.6 per cent year-over-year. Given the favourable mortgage rates and the wide choice of homes, many prospective buyers have made the move and finalised home purchases. As well, favourably low mortgage rates have maintained a narrow spread between homeownership and rental costs, sustaining elevated sales of homes

Figure 3



Source: CREA, CMHC Forecast (f)

Figure 4



Source: CREA, CMHC Forecast (f)

at the lower price ranges. Under these conditions, a third of all resale transactions to the end of August occurred at prices under $249,000.

Boosted by the strong showing through August, resale transactions are projected to rise 7.7 per cent this year to 3,850 sales, the highest total since 2007. Next year, demand for resale homes is expected to remain elevated, supported by low mortgage rates, employment gains, and wage growth. Nevertheless, continuing advances in house prices, increased competition with the new housing sector, and reduced levels of migration will temper demand for resale homes slightly, bringing annual sales to 3,800 units.

Prices expected to rise through 2012

Following a 6.2 per cent advance to $296,293 in 2010, average MLS® price growth will be tempered over the forecast period due to heightened listings relative to demand. A compositional shift to sales of homes in the higher price ranges accounted for the bulk of the price gains last year as homebuyers took advantage of historically low mortgage rates and equity gains to purchase higher priced homes with more amenities. Accordingly, resale homes priced above $350,000 accounted for 25 per cent of all resale transactions in 2010, up from 20 per cent a year prior. The percentage of sales above $350,000 has shifted slightly upward this year, with 27 per cent of all resale transactions transpiring at prices above $350,000. Aided by this compositional shift, average resale price in Saskatoon advanced five per cent to the end of August. For the entire year, we expect the average resale price to rise 3.8 per cent, reaching $307,500.

Active listings in August were on par with the previous two years, among the highest in history. Moving forward, price gains from previous years will encourage more homeowners to list their homes, increasing resale supply further. Concurrently, in-migration, while expected to remain strong, will ease off from the record high levels of recent years, tempering resale demand. The combination of heightened supply levels and modestly slower sales will moderate resale price growth to 2.1 per cent in 2012, reaching an average of $314,000.

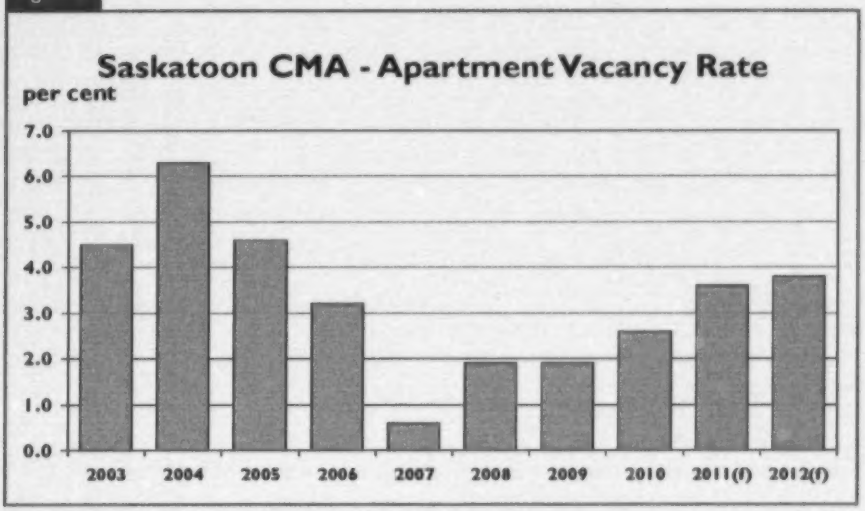
RENTAL MARKET

Average vacancy rate inches up

Apartment vacancy rates across Saskatoon will increase in the second half of 2011 with further advances anticipated next year. CMHC's April 2011 Rental Market Survey found a Metro-wide apartment vacancy rate of 3.4 per cent compared with 2.1 per cent a year prior. Additions to the rental universe through the introduction of newly constructed units, as well as continued competition from the secondary rental market will provide the major impetus for the increase in vacancies. Since November 2010, 499 rental units have begun construction across Saskatoon, while 225 rental units were completed through August 2011. Meanwhile, CMHC's October 2010 Rental Market Survey revealed that 19.5 per cent of all apartment condominiums surveyed had made their way into Saskatoon's expanding secondary rental market, up from 14.2 per cent a year prior.

Tempering the increase in vacancies, however, Saskatoon will still attract elevated levels of net migration, albeit lower from the peak set in 2010. This will ensure that demand for rental units will remain high over the forecast period. In addition, continuing advances in both new and resale house prices will inhibit some renter households from moving to homeownership. On balance, these factors will result in a slight increase in the average vacancy rate to 3.6 per cent in 2011 and 3.8 per cent in 2012.

Figure 5



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

Average monthly rents rise moderately through 2012

With the average vacancy rate expected to rise over the forecast period, property managers will temper the pace of rent increases this year and next in an effort to minimise costly tenant turnover. As well, mortgage rates will remain low, curtailing increases in the monthly cost differential between renting and owning a home, thus creating additional incentive for property owners to limit the pace of rent increases moving forward.

Under these conditions, the average monthly rent for a two-bedroom apartment will advance two per cent to $950 in the October 2011 rental market survey, and rise further to $965 by October 2012. This will represent monthly increases of $16 and $15, respectively in each year, considerably lower than the $29 monthly rent increase recorded between 2009 and 2010.

ECONOMIC OUTLOOK

Employment expansion delayed to 2012

A number of factors will forestall employment growth in Saskatoon this year. Weaknesses in price and global demand for natural gas continue to inhibit employment expansion within the mining and oil and gas extraction sectors. Concurrently, agricultural processing and exports were impacted by extensive flooding and rainfall across large portions of the province in the spring. Reduced global demand for uranium has also wrought a near 17 per cent decline in production and exports to the end of June, impacting Saskatoon's transportation and service sectors. Collectively, these factors will impede the economic recovery in Saskatoon this year, and culminate in a 0.9 per cent contraction in employment, representing the loss of about 1,300 positions.

Despite the headwinds encountered thus far, some bright spots have emerged which will mitigate job losses this year and spur payroll expansions in 2012. Recently elevated world oil prices have led to marked increases in drilling and exploration activity raising the prospects of increased capital spending over the forecast period. As well, potash prices have advanced in recent months, powering a 21 per cent year-over-year improvement in production and exports to the end of June.

Moving forward, Saskatoon's economy will also benefit from a wide range of major public and private sector investment in new and on-going capital projects related to leisure and accommodation, utilities, health, education, security and transportation infrastructure. This will have a favourable impact on the region's labour market over the forecast period. Concurrently, continued global economic recovery, in particular, improved demand for potash, agricultural, and manufactured products, will further strengthen economic activity and reinvigorate Saskatoon's labour market.

Despite the above sources of optimism, a number of factors may slow the pace of economic recovery. If persistent throughout the forecast period, a Canadian dollar near or above parity with the U.S. could impede the rebound, especially within the manufacturing and resource sectors. As well, a repeat of the extensive flooding and rainfall that occurred this year and last, rendering vast portions of the province inaccessible to farmers and oil field workers, could potentially curtail payroll expansions in Saskatoon's resource, agricultural

and manufacturing sectors. On balance, CMHC anticipates average employment will expand by about 2,200 positions next year, representing a gain of 1.5 per cent.

Net-migration contracts from 2010 peak

Following a record net-inflow of 5,620 people in 2010, net migration into Saskatoon is expected to moderate through 2012. CMHC's forecast calls for net-migration to rely increasingly on the continued inflow of international migrants. First half data indicates that the rising unemployment rate and slow pace of job creation inhibited inter-provincial migration to Saskatchewan, especially in the opening months of the year. Nevertheless, at 5.6 per cent to the end of August, Saskatoon still retains one of the lowest unemployment rates in Canada, a factor that will help maintain its appeal to migrants over the forecast period. Under these conditions, we expect net-migration to total 4,500 people this year and 4,200 in 2012.

TRENDS IMPACTING HOUSING

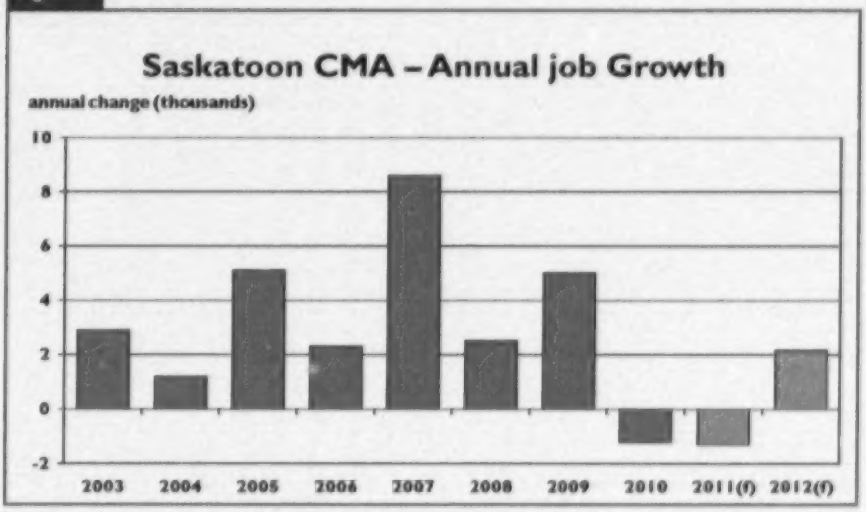
Mortgage Rates

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Short term mortgage rates and variable mortgage rates are expected to remain at historically low levels. The outlook also assumes that mortgage rates will remain relatively flat until late in 2012. This will continue to support housing demand.

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

Forecast Summary Saskatoon CMA Fall 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	3,540	3,834	3,574	3,850	7.7	3,800	-1.3
MLS® New Listings	8,141	6,463	6,756	7,000	3.6	6,900	-1.4
MLS® Average Price ($)	287,803	278,895	296,293	307,500	3.8	314,000	2.1
New Home Market							
Starts:							
Single-Detached	1,288	1,101	1,638	1,600	-2.3	1,550	-3.1
Multiples	1,031	327	743	1,200	61.5	950	-20.8
Starts - Total	2,319	1,428	2,381	2,800	17.6	2,500	-10.7
Average Price ($):							
Single-Detached	366,526	383,234	380,600	382,500	0.5	388,000	1.4
Median Price ($):							
Single-Detached	354,765	373,262	359,239	360,000	0.2	365,000	1.4
New Housing Price Index (% chg.)	20.6	-7.6	2.8	1.4	-	2.0	-
Rental Market							
October Vacancy Rate (%)	1.9	1.9	2.6	3.6	-	3.8	-
Two-bedroom Average Rent (October) ($)	841	905	934	950	-	965	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	142,000	147,000	145,900	144,600	-0.9	146,800	1.5
Employment Growth (%)	1.7	3.5	-0.7	-0.9	-	1.5	-
Unemployment rate (%)	3.9	4.6	5.4	5.6	-	5.3	-
Net Migration	4,635	5,504	5,620	4,500	-19.9	4,200	-6.7

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of October 5, 2011.

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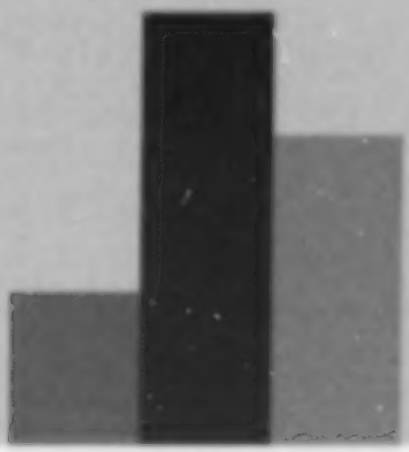

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